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Free Trade Implementation Activity (FTIA)

August–October 2014 Quarterly Report

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Introduction

The Free Trade Implementation Activity (FTIA) formally began in July 2014 with local project start-up initiating in mid-August. In coordination with USAID, FTIA adopted the same project name as the predecessor project—USAID *Facilitando Comercio*—for continuity purposes. While much of the project’s first quarter has been centered on administrative tasks, such as branding, office set-up, and team recruitment, efforts to solidify technical assistance was also prioritized, allowing the project to finalize its first year work plan and its performance management plan.

USAID *Facilitando Comercio* conducted a series of meetings to validate priorities amongst key counterparts—customs (DIAN), the Ministry of Trade, Industry and Tourism (MinCIT), and private sector trade associations (FITAC and CLADEC). Validation of activities coincided with the formation of President Santos new administration. Meetings with key offices were slightly delayed as a new Director of DIAN, a new Minister of MinCIT, and new directors of technical divisions took office. Much of the project’s resources during this first quarter of operation were dedicated to ensuring technical assistance was coordinated at an inter-agency level both within the Government of Colombia (GOC) and the U.S. Government (e.g. Foreign Agriculture Service, Foreign Commercial Service). Preliminary and ad-hoc coordination meetings were also held with other technical assistance initiatives, such as the Canadian Border Services Agency (CBSA) and the Inter-American Development Bank (IDB). USAID *Facilitando* went to great lengths to ensure the design of technical assistance and project commitments were in line with the GOC’s trade and reform agenda so that project activities result in a sustained effort to build internal capacities and in turn strengthen Colombia’s capacity to facilitate trade.

The following quarterly report outlines the main undertakings of all work plan activities. Some activities, such as private sector outreach and Standard Alliance, are anticipated for the latter half of Year 1 and therefore, are not elaborated on and simply state its current status. The report follows the structure of the project’s technical components— (1) Customs Policies and Enforcement (2) Rules of Origin; (3) Technical Standards, and (4) Demand-Driven Assistance. The report also includes a brief section on administrative matters, and an appendix on financial execution (Appendix A).

Component 1: Strengthen Customs Policies and Enforcement Practices

Technical Assistance under Component 1 is centered on improving operational and technical aspects of customs and trade, particularly as it relates to imports. Activities are also intended on improving border management transparency and importer compliance.

ACTIVITY 1.1 DEVELOP INSPECTOR TRAINING PROGRAM

At the forefront of DIAN's customs clearance operation are the inspectors who do not receive any formal training prior to being placed in the field. The lack of standardized training that occurs within the inspector group leads to poor operational practices and unnecessary clearance delays. This was one of the most important issues discussed in the meeting with DIAN's General Director, who provided the institutional commitments needed to move the activity design forward. Commitments included: making the pilot training program mandatory, ensuring inspectors are allotted the necessary time to participate in the training, selecting inspectors with an expected career trajectory, minimizing job rotations to the extent possible, and allocating a budget for the future implementation of the program.

This activity requires coordination amongst four divisions within DIAN—Foreign Trade, Technical Division, Labor Skills Management, and DIAN's school. In order to delve into the program details and define the selection parameters of inspectors who will participate, it is important for the head of Labor Skills and Management to be fully engaged from the onset. This division recently changed leadership as well, causing a delay in starting the activity.

In preparation of kick-starting this initiative, USAID Facilitando Comercio conducted a site visit to DIAN's school and took note of the recent investments made to improve its infrastructure, IT equipment and training tools. These improvements will contribute to the implementation of the training program and illustrate DIAN's long-term commitment to building its human capital.

Additionally, a meeting was held with FITAC (Federation of Logistics Agents for International Trade), as well as an informal meeting with the IDB with regards to their training initiatives to evaluate collaboration opportunities. FITAC is exploring a World Customs Organization (WCO) accredited training program for customs agents, which would be offered through a local university. The IDB is working on a freight transit and transport training program with DIAN and

is also offering member countries customized courses for customs officials. The content of these courses are not yet known, but further coordination and collaboration is anticipated.

ACTIVITY 1.2 IMPLEMENT ADVANCE RULING SYSTEM

Article 5.10 of the CTPA obligates Colombia to issue advance rulings prior to imported goods entering the country at the request of the exporter, importer or producer by May 2015. The issuance of advance rulings has been incorporated into the draft customs code, and DIAN is keen on preparing for its implementation ahead of the deadline.

DIAN has already moved forward with publishing the request for an advance ruling on tariff classification, a form the previous USAID Facilitando Comercio project developed. The private sector can now download the form from DIAN's website.

1.2.1 Technical Training for Issuing of Rulings

The project met with the director of DIAN's technical division and the heads of each technical group - origin, tariff classification, valuation, and the laboratory - to review technical assistance priorities. This included reviewing technical training needs and assistance with the development of processes and procedures for issuing rulings, such as: 1) developing an IT tool to manage the requests and issuance of rulings to ensure accuracy and timeliness; 2) developing application forms and ruling formats for valuation and origin; 3) technical training for the laboratory; 4) and training on the production process of specific sectors. DIAN is currently identifying priority sectors according to import volumes and sectorial familiarity.

USAID Facilitando Comercio held a coordination meeting with Canada's Border Services Agency (CBSA), which has a technical assistance program with DIAN under the context of its free trade agreement. CBSA expects to train DIAN on valuation fundamentals, covering the WTO Customs Valuation Agreement. CBSA's assistance will be centered on valuation methodologies and USAID Facilitando Comercio will focus more on practical aspects of coordination and control practices.

Plans to bring valuation experts from US Customs and Border Protection (CBP) and the customs agencies of Argentina, and Canada were discussed with DIAN's technical division. DIAN would like to explore pre - and post-entry practices as inspectors currently manage most valuation estimations directly at the time of inspection. Changing this practice would have direct impact on clearance times. USAID Facilitando Comercio will assist with subject-matter expertise and, if possible, work with the customs code drafters, as a demand-driven activity, to reflect any relevant change in the code while its approval remains pending.

1.2.2 Implement Appeals Process for Advance Rulings

Under the new customs code, the appeals process will be managed by DIAN's Legal Counsel Office. DIAN's technical division requested the project's assistance in beginning to engage Legal Counsel to provide training and guidelines to be able to rule on appeals and assistance implementing an appeals process. USAID Facilitando Comercio held its first meeting with Legal Counsel to bring awareness to this new responsibility. Many working in this division are

unfamiliar with the technical aspects of advance rulings and are unaware of its inclusion in the new customs code. Follow-up meetings to begin technical assistance are planned.

ACTIVITY 1.3 IMPROVE RISK MANAGEMENT SYSTEM

DIAN is currently undertaking great efforts to improve its risk management system. An initial meeting was held with the coordinator of this office, where the project was asked to assist with experts that could illustrate empirical risk models so that DIAN could assess best practices. In the course of validating the activity, DIAN requested the project focus on improving the risk management system for express deliveries in particular. Follow-up meetings to continue to define the project's specific intervention are scheduled for early November.

ACTIVITY 1.4 IMPROVE SINGLE WINDOW FOR FOREIGN TRADE

MinCIT, the leading ministry behind Colombia's national single window platform for foreign trade (VUCE), continues to plan for improvements, such as a data interchange initiative with Mexico's single window, and the development of a simultaneous inspection module, which is elaborated on in the draft customs code and is pending approval. Many of the sub-activities below remain in an initial planning and discussion phase.

1.4.1 Help DIAN Integrate into VUCE

DIAN's foreign trade division expressed interest in receiving assistance from the project to help DIAN move closer to integrating some of its customs operations to the VUCE. With the purchase of a new customs management system, Uni-Pass, underway, the full integration is expected to take approximately two years. Meanwhile, the foreign trade division would like to start planning for that migration and its integration with the VUCE. Further discussions with DIAN are pending to identify next steps.

1.4.2 Assist MinCIT with Port Community System Planning

USAID Facilitando Comercio met with MinCIT's VUCE team to discuss ongoing plans for the development of a port community system (PCS). The project offered assistance with technical specifications and procurement documents so that MinCIT could move forward from internal planning to its development by a third party. Discussions also included the possibility of developing the PCS under a private-public partnership, which MinCIT was open to evaluating. Necessary decisions to move this activity forward have been stalled as MinCIT reviews its 2015 budget. Follow-up meetings are planned for mid-November.

1.4.3 Assist MinCIT in Developing National Committee on Trade Facilitation

As the WTO Trade Facilitation Agreement begins to gain momentum and a number of free trade agreements continue to be negotiated, a coordinated effort is needed to comply with related commitments. USAID Facilitando Comercio began discussions with MinCIT's free trade agreement office to establish a national committee on trade facilitation (NCTF). MinCIT began coordinating internally to revive an informal committee that oversaw trade facilitation matters. MinCIT will review next steps to revive the committee internally and USAID Facilitando

Comercio will evaluate potential committee agendas in coordination with the trainings being developed with DIAN.

Component 2: Strengthen Ability to Meet CTPA Rules of Origin Requirements

Technical assistance under this component is focused on practical and operational aspects of origin verification. The project reviewed work plan activities under this component with CBSA, as they too may incorporate origin into its training plan.

ACTIVITY 2.1 IMPROVE ENFORCEMENT OF RULES OF ORIGIN BY DIAN

DIAN's technical division has the responsibility of conducting origin verification to ensure goods entering Colombia with preferred tariff treatment duly qualify. DIAN began using the verification manual developed by the previous USAID Facilitando Comercio project and has conducted four verifications during 2013-2014. The manual is in the process of being formally included into DIAN's quality management system.

DIAN still requires further training to continue improving origin verification practices. Since the advent of the CTPA, Colombia has begun receiving products classified as remanufactured goods from the US claiming preferential treatment and DIAN doesn't have the technical concepts to determine used goods versus those that are remanufactured. Additionally, DIAN has started receiving refund claims for textile goods exported to Colombia, which qualified for preferential treatment and were not claimed as originating. These issues along with training on accounting practices, the implementation of a simplified electronic certification, and quantifying material inputs for finished goods have been discussed with the project in ongoing meetings to define training needs.

Given current time restraints, the origin technical division has requested assistance to this group start in January 2015.

In the interim, USAID Facilitando Comercio participated in the US Embassy's Foreign Commercial Services (FCS) training workshop on remanufactured parts. This workshop was held in collaboration with DIAN, MinCIT, CBP, and the Federal Trade Commission (FTC) as a training activity for DIAN and to dialogue with other government entities that will be responsible for developing pertinent regulations for the import and commercialization of remanufactured

products. The project will coordinate with FCS, MinCIT, and DIAN for follow-up training needs and to develop written materials if needed.

ACTIVITY 2.2 IMPROVE PRIVATE SECTOR COMPLIANCE

USAID Facilitando Comercio will begin coordinating with Proexport at the beginning of the second quarter to develop a joint training initiative for the private sector. Trainings will likely be focused on origin compliance and accounting practices using material adapted from DIAN's trainings.

Component 3: Improve Technical Standards and Compliance

USAID Facilitando Comercio began coordinating with the American National Standards Institute (ANSI) and USAID/Washington to resume activities under the Standard Alliance Program. ANSI shared the work plan it had developed and asked the project to validate activities given leadership changes within MinCIT. While activities below were reviewed with MinCIT, progress towards better defining technical assistance and implementation timeframes remains pending once MinCIT's new director of technical regulations is named (which is expected in early November).

ACTIVITY 3.1 CONDUCT WTO CODE OF GOOD PRACTICE WORKSHOP

A tentative date of February 2015 was discussed for the workshop with MinCIT's acting director for technical regulations. Details of potential conference speakers and commercial issues to be discussed during the workshop were under review by MinCIT and a pending meeting with ICONTEC (Colombia's National Standards Institute) was planned to provide revisions to the agenda.

ACTIVITY 3.2 ASSIST WITH U.S. FOOD AND DRUG ADMINISTRATION'S (FDA) FOOD SAFETY MODERNIZATION ACT (FSMA) COMPLIANCE

The project met with Trade Agreement Implementation Office, which requested this activity be incorporated into the Standard Alliance Program. Colombia is seeking assistance to develop action plans for its agribusiness sector (e.g. inventory controls) that would allow it to comply with the FSMA. USAID Facilitando Comercio has flagged this for ANSI and its inclusion is expected in the revised work plan.

ACTIVITY 3.3 COORDINATE BETWEEN ICONTEC AND U.S.-BASED STANDARDS DEVELOPERS

This activity will be developed in detail with MinCIT's new director for technical regulations once priorities can be confirmed.

Demand-Driven Technical Assistance

USAID Facilitando Comercio has set aside resources for demand-driven technical assistance to be able to respond to CTPA commitments.

4.1 GUIDE DIAN THROUGH DRAFTING REGULATIONS

DIAN has decided to postpone regulation drafting until the customs code is approved. While its passage is awaiting a court ruling, DIAN's General Director remains optimistic the code will be passed in the first half of 2015.

4.2 IMPROVE EXPRESS DELIVERY OPERATION

While DIAN's Customs Director initially requested this activity be left out from the project's technical assistance plan, DIAN's General Director requested it be incorporated given Colombia's challenge to adhere to pertinent CTPA commitments. Late in the quarter, USAID Facilitando Comercio began holding meetings with DIAN's foreign trade division and the association for express delivery companies (CLADEC) to understand the current status of the operation and found the reform initiative had significantly stalled, mainly due to leadership changes.

IT improvements are currently on hold until the migration to Uni-Pass is better understood, and the elimination of restricted weights and values, and the WCO's categorization of goods for immediate release have not been fully implemented. The categorization of shipments is currently managed as a good faith effort. DIAN's only reforms to date include implementing a cross-check valuation mechanism to allow for better duty collection post clearance, which the predecessor USAID project brought to DIAN's attention as a major deficiency in the operation, and the elimination of the value-added tax for express shipments.

DIAN is now prioritizing the design of a verification zone for express delivery operators (e.g. a security controlled area for private operators to conduct verifications and file discrepancy reports) and an operational management study to be able to undertake improvements to the infrastructure and physical aspects of the operation. DIAN intends on defining this verification zone in the revised customs code and is exploring other operational models (Chile and the U.S) that can be replicated. USAID Facilitando Comercio will work with DIAN's foreign trade division and the custom code drafters to initiate an operational management study in the second quarter.

Administrative Matters

USAID Facilitando Comercio focused much of the first quarter of implementation on start-up activities. This included office set-up, recruiting for local office support staff, designing a project website, and working on contractual deliverables, such as the first year's work plan and a performance management and monitoring and evaluation plan.

To ensure detailed tracking of activity implementation and task order objectives, the project, in coordination with USAID, defined a set of indicators according to counterparts' technical assistance priorities. Indicators form part of the project's intermediate results and measure outcomes that lead to strengthening trade facilitation and meeting commitments made under the CTPA. Additionally, USAID Facilitando Comercio evaluated and established baseline and target figures for each of the indicators and developed a database to monitor progress. The monitoring and evaluation of these indicators will begin in the second quarter and progress will be reported in preceding quarterly reports.

Lastly, the project coordinated with USAID on the undertaking of a formal project launch event with the participation of the U.S. Ambassador and the General Director of DIAN. Coordination has been ongoing and details continue to be defined in preparation for a December 1st event. The press will also be invited with the objective of highlighting US and Colombia's collaboration on trade facilitation in the local media.

Appendix A. Financial Reporting

The following table illustrates project expenditures according to the budget's main line items in the reporting period.

Table A-1

Budget Expenditures (\$USD)

Category	Budget	Billed through September 2014 (a)	Estimated October 2014 Billings (b)	Estimated Accruals through October 2014 (a+b)	Budget Remaining
Technical Assistance Labor	1,679,350.69	79,324.44	31,803.72	111,128.16	1,568,222.53
Travel/ Transportation	176,738.36	1,592.59	2,150.00	3,742.59	172,995.77
Allowances	179,905.50	3,036.27	1,800.00	4,836.27	175,069.23
Furniture and Equipment	22,301.60		8,132.45	8,132.45	14,169.15
Participant Training/ Workshops/ Conferences	23,500.00				23,500.00
Other Direct Costs	538,239.93	1,500.93	6,674.00	8,174.93	530,065.00
General and Administrative Expenses	79,958.26 (8.5% of total costs)	521.03	1,594.30	2,115.33	77,842.93
Total Costs	2,699,994.34	85,975.26	52,154.47	138,129.73	2,561,864.60